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PROFIT SHARING AS AN INFLUENCE IN INDUSTRIAL RELATIONS

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The sharing of profits with employees, whether in the form of a bonus for super-efficiency, distribution of net gains in proportion to wages and salaries, or dividends upon shares of capital stock, has long since passed the theoretical and experimental stage and has already played a conspicuous part in numerous colossal industrial successes, and whether by accident, or which is more likely the case, as a natural consequence, a greater degree of harmony and contentment exist in establishments where it is to be found than in others where such practices have not been inaugurated.

Of the many forms of profit sharing now in force the most common and least complicated is the sale of shares of capital stock to employees who have been in the service for a certain length of time, and whose record shows loyalty to and interest in the enterprise; or the setting aside each year, when earned, a certain proportion of the net profits to be distributed to the workers who have complied with fixed requirements as to term of service and coöperative spirit, in ratio as their respective wages bear to the whole payroll.

The first method, except in the case of companies having shares of the par value of \$1.00 or \$5.00 (and these low par values are becoming popular now-a-days because they facilitate wide distribution), necessitates an arrangement on the part of the company to sell the shares on the partial payment plan taking the obligation, interest-bearing of course, of the purchaser and crediting all dividends and payments until the whole sum shall have been paid, at which time the shares may be transferred to the name of the employee. In the case of a company whose shares are not listed upon any stock market the company must stand ready to purchase back the shares when offered.

The second method requires only the fixing of some percentage which seems fair to all and then applying it to each year's net

profits to determine the amount for distribution. Usually such distributions are made just prior to the Christmas holidays.

In both plans it is most important that the employees be obliged to serve the company for a period of months or years and with a proven degree of faithfulness before being permitted to participate in any profit-sharing arrangement.

Is profit sharing a preventive for all conflict as between the employer and the employed?

Will profit sharing ensure justice as between the worker and the works management?

Can the evil of unemployment be mitigated by profit sharing?

These and many other questions arise in the minds of those who have given little thought to the subject and have not until recently noticed the rapidity with which sentiment is changing in this field.

If the division of gain or the distribution of benefits, and that alone, is depended upon to bring an affirmative answer to these questions, disappointment awaits whomsoever expects so much, for that would be too great an accomplishment for which to hope; but if coupled with other logical, reasonable, do-unto-others-as-you-would-be-done-by relations, great progress can be, in fact in many instances has been, made toward a condition of peace, contentment and more lasting and universal prosperity.

It would be incorrect and misleading to say that all establishments, where profit sharing had been adopted, were successful to a greater extent than their neighbors where it had not; for like a piece of machinery, it, to be efficient, is the result of scientific observation and must be thoroughly understood and properly applied. The executives who call their employees together some January first and announce the new order of things, never again referring to it, expecting the seed to sprout unwatered and the crop to mature uncultivated, are sorely disappointed and firmly convinced of what they believe to be the fallacy of a theoretical scheme to take from them hard-earned profits giving nothing of value in return. As a matter of fact the trouble lies in their failure to properly apply the principle.

The warden of one of our large penitentiaries says that fewer mechanics come under his care than any other class of society; and that of the criminals who are paroled or dismissed, those who dur-

ing their confinement have learned a trade seldom are returned to jail. "I am positive," said he, "that were every boy able to find the tool in which he could become interested and with which he would love to work, there would be a smaller number of inmates in our prisons."

This testimony from one who knows from long experience strengthens the belief that the desire to do wrong is not basic in the minds of the majority of workers, but rather the result of failure to be guided into the right path of usefulness at the start, and suggests the thought that if love of a tool could be coupled with the desire for accomplishment of profitable work, a great economic force would be kindled; and from thinking of how little work would win the daily wage, men would turn to the thought of how to so increase the productivity of their efforts that the general gain might be greater and their share thereof be larger.

In works where wages and compensations are fixed arbitrarily with no tangible recognition given to him who displays the greater intelligence or exerts the greater effort, and where no attempt is made to compel an understanding that as the success of the whole increases that of the individual worker must as well, and where as the business grows and profits increase the only evidence which meets the eye of the employee is the added display of wealth on the part of the owner and the lengthening of his vacations; in such places no one but the "Old Man" has a vital interest beyond the contents of the pay envelope at the end of the week, and the business is almost certain to dwindle after he passes on.

A great deal of the strife and conflict which arises between employer and employee is caused by a lack of frankness on the part of the employer. They seem to be obsessed with the idea that they must keep all knowledge of the progress of affairs from the working force, and that best relations can be obtained if the men feel that the enterprise is being run at a loss. No more stupid and ridiculous theory could be imagined, and profit sharing will put an end to it because of the feeling of partnership which is immediately engendered. Each realizes at once that the other has a common interest and that if a difference of opinion exists it must be an honest one; each knows that since both are working toward profit making, both have the same ultimate end and are actuated by the same fundamental desires. For these reasons a greater spirit of justice and

fairness will maintain in those businesses where the employees are partners.

Conflicts and discontent always arise out of a feeling that rights have been usurped or rewards for achievement are inadequate; the logical effect of profit sharing is to eradicate all such ideas and substitute therefor, feelings of loyalty and ownership.

The evil of unemployment in so far as it is caused by conflict between the employer and the employed can and will be mitigated by fair treatment (a proper form of profit sharing is the very quintessence of fairness) but that the distribution of gains among the workers can prevent the occasional disparity between supply and demand and the attendant fluctuation in the amount of work to be done in the world, is impossible of belief.

Some of the arguments against profit sharing are these:

We do not care to make stockholders of our employees because as such they would have the right to exact a statement of profits and might use the information as a basis for demands that wages be increased.

The plan would be all right if every year was a prosperous one and the amount to be divided remained the same or increased; but that not being possible, discontent would certainly arise and trouble result in the lean years.

As participants in the profits, workers would certainly feel at liberty to criticize methods of conducting the enterprise.

The one sweeping answer to all of these objections is that the plan requires, for its greatest benefit, the drawing together into a close working whole of all of the elements of an industry, encouraging them to coöperate to the fullest extent, and no management which does not believe that such a condition will make for greater benefits is tuned in harmony with the plan or can make it succeed.

The knowledge of what profits have been made in the case of companies whose shares are not listed on a stock exchange and which are not therefore obliged to publish them, should not have any different effect than upon those who, because of listing their shares, are obliged to make the annual results public. Rather than detrimental it is quite likely that the results would be beneficial, for the "whole world loves a winner" and a good job with a successful concern is always coveted by desirable workmen. Greater opportunities for advancement lie with the profit-earning organizations, a powerful argument. As for the likelihood that higher wages would be demanded, the working force will be receiving higher wages automatically in their share of the gains.

Since the regular wages will have been paid during the lean years when no profits are made, the worker will be no worse off than if the plan had never been put into effect, and no serious discontent is likely to evidence itself, because the conditions which have brought about the decrease in profits will have been manifest long before the actual results are felt, and the omission of dividends will never come as an unexpected shock. The wage-earner has ever been obliged to adjust himself to varying incomes and is far better able so to do than are his superior officers. From the beginning of enterprise he has been laid off when times were bad, and obliged to work on short time when business was dull. Some would complain, of course, but the great majority would understand; and the most that they might ask would be the repurchase of their shares or a loan upon them as collateral to tide them over the period of inactivity, and this the management must stand ready to grant.

Rather than object to a desire on the part of the working force to offer suggestions, the wise management will foster and encourage such a feeling for in it lies the possibility of greater profit and a certainty of increased interest and enthusiasm among the men. The management of an urban trolley system which shared a certain portion of its earnings with its men, went so far as to appoint auditors from the working force to vouch for the correctness of the calculations, and no evil resulted therefrom.

Granting that some form of profit sharing, properly applied, will bring an affirmative answer to the opening questions of this article, we are then confronted with these thoughts:

Why is it certain or even probable that the profit-sharer will be a greater profit-producer than one whose only reward is his wage?

Under what conditions can it be started and how carried out to make it a success and ensure a greater degree of contentment, honesty and productiveness than existed prior to its adoption?

None but the hermit, the recluse who lives apart from other human beings, makes everything that he wears and uses, seeks or grows his own food, is wholly independent of his fellow men. Just so soon as people gather together in colonies and communities they become reliant the one upon the other and must immediately be mindful of, and influenced by, the rights of all of their fellows. The

hermit is a selfish creature with no thought but of his own comfort and livelihood; the dweller in a community, a broader-visioned being who must needs think of his neighbors in planning his own course of action and habits of life. Everyone will grant that little progress could be made in the world were each member of society to act in total disregard of the rights and privileges of every other member. Factory life is no different from that outside, in that the wage-earner without interest in, or consideration of, the general procedure of the process stands in the way of progress. Unless every employee is mindful of the general welfare, unless he appreciates the effect of his effort upon the fortunes of all, unless he has a greater interest than that of a wage for the performance of a certain operation, he will not be actuated by those broadening influences so much to be desired.

How different is the point of view of the worker who shares in the final profit; immediately his mind refuses to be limited to the narrow confines of his own task and his thoughts reach out toward the finished work, he can see and keenly feel the effect of wasted time and material upon the year's results, part of which belong to him.

An impressive example of this is the experience of a concern selling its product in one of our large cities. The selling organization consisted of salesmen, clerical help, stenographers, each unit working under the direction of the manager and each individual receiving a fixed wage, none particularly interested in the results of the others' work. The salesmen, though friendly, would not take much time to help each other because it was not to their financial interest to do so. The stenographers came and went on the stroke of the hour, the work not finished at the end of the day went over unless the one who desired it and realized its importance to that part of the work for which he was responsible was present to insist that it be finished. The clerks did their tasks in the manner most enjoyable to themselves without much regard to what others thought or how they were affected. And so matters drifted until a strong desire to increase the volume of sales and profits caused the manager to devise a plan which he outlined somewhat as follows:

Our sales in this city are not as great as I think that they should be and I want them increased. You are receiving certain salaries for producing the amount of business we now do and we do not intend to ask that the increased effort need-

ful to enlarge our volume go unrewarded but propose that the wage of each be increased in proportion to the growth of the business. Under this arrangement it is the duty of each to his fellow, to exert his greatest and most efficient effort and to help each other whenever and however possible for the good of the whole since all will share in the final result.

The result was that each employee became vitally interested and concerned in the work of all of the others. Important letters went out promptly even if the stenographers had to stay after hours; clerks discovered that it was a pleasure to humor the whims of desirable customers and to expediate the work of the salesmen by saving their time in all ways possible; salesmen helped each other to close hard contracts fully realizing that in so doing they were helping themselves. The whole work became intensive and maximum results were accomplished through the exertion of maximum intelligent effort.

It is a common error to believe that all workers are devoid of conscience, have no interest beyond their wage and are incapable of being aroused to a sense of pride in their employer and the goods which their efforts produce. That such a state of mind does exist in far too many establishments cannot be truthfully denied, but that it is due to a lack of educational work on the part of the employer is absolutely certain. Never was there a truer axiom than, "like master, like man."

And now we come to the most important phase of profit sharing, the conditions under which it can be successfully attempted and how it must be carried out to ensure advantageous results.

In the first place, the management must be enthused with and thoroughly convinced of its desirability; they must be ready and willing to give away a portion of the profits in order that the business may grow in earning capacity and the employees in working efficiency. They must study the psychological effects to be brought about and understand the cause and result. They must learn these things perfectly in order that they may be able to impart the knowledge to their employees, for it is from careful education that the greatest benefits will be derived. The most important, and an absolutely essential part of the profit-sharing system, is the educational side, the forming of the operative's mind to appreciate and want it, the training of his thought to realize that what helps the business will help him, the combating of the idea that any

embarrassment, misfortune or disaster to the enterprise can bring everlasting benefit to even a small minority of the working force.

Time was, and only a short while ago, when business was not considered to be a science, when training of workmen to do their tasks in accordance with efficient formulæ and of salesmen to apply logic to their interview, was unthought of; fire drills for all employees a thing undreamt. And right here, why, if the majority of workers are devoid of interest in the welfare of the establishments in which they work, are they willing to form into fire brigades, act quickly, efficiently, frequently risking their lives that the property may be saved from destruction? Because some say, "the destruction of the property would mean the loss of a job and the wage it brings." Would not the same result follow the loss of profits?

In nine hundred and ninety-nine cases out of a thousand the most generous and attractive profit-sharing plan imaginable if distributed in bulletin form and allowed to stand unchampioned and unexplained will fail utterly. Why? For the very good reason that the majority of people do not recognize opportunity when it presents itself and cannot reason out for themselves the advantages which they will derive from such a plan.

For profit sharing to be a success, those who are to be made a part of the plan must be educated in its advantages; they must be shown how they are to benefit, every rule and regulation has some bearing upon profits and this fact must be pointed out and made clear. Their attention must be incessantly attracted to the profit-making side of the business with which they are associated, they must be taught to measure every movement, every process of which they are a part by the amount of profit it can be made to yield or the amount of loss it can be made to save. They must be made to realize that time and effort, as well as money and materials, are valuable and that to waste or misuse them is to decrease earnings. They must be shown the close relationship between the wasted moment in the shop or office, or on the road, and the music lesson of the daughter or the bicycle for the son. They must be argued with in terms which they quickly and easily understand and the value of which they can readily appreciate and instantly translate into the needs and desires of their everyday lives.

Some say that operatives oppose such plans because they are

contrary to the dictates of organized labor; perhaps that is so, but very few men who see and understand and can take advantage of an opportunity which is certain to better their position in the world and make the lives of their families more pleasant fail to avail themselves thereof. Profit sharing is such an opportunity for the worker, but it is the task of the employer to drive the idea home.

Just as the average man takes better care of the house which he owns than he does of the one he rents, and treats his own horse with more consideration than he does the one he hires, so will the profit-sharer, the part-owner in the business and its success, treat his employer with greater fairness because of that very feeling of ownership and responsibility. The feeling of ownership engenders a sense of greater interest which quickly minimizes the need for close critical supervision; it acts like the honor system among college students.

Warden Osborne, in his plea for reform in prison management insists that the only way to fit the transgressor for a position of liberty in society is to educate him in the advantages of doing right and to appeal strongly to that sentiment which exists in every human being, a love of his fellow man and a desire to do the square thing by all who treat him fairly. The same is true of profit sharing and he who will take the time and trouble to direct the thoughts of his employees toward the making of profits will find infinite satisfaction in the increased loyalty and prosperity of those about him.